



# **Financing Rural Development in LAC**



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**Inter-American Development Bank  
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# **A significant and continuous investment in productive rural activities is:**

- **Ethically correct - >50% of rural households are poor**
- **Politically correct - RD reduces national and regional conflicts**
- **Environmentally correct - RD reduces NR degradation**
- **Economically correct - investments in RD have high returns and multiplier effects**

**The rural economy is multisectoral  
and includes many dimensions:**

**Agriculture, livestock, forestry, agro-  
industry, natural resources management,  
infrastructure, mining, finance,  
transportation, energy, education, health  
and tourism, among others**

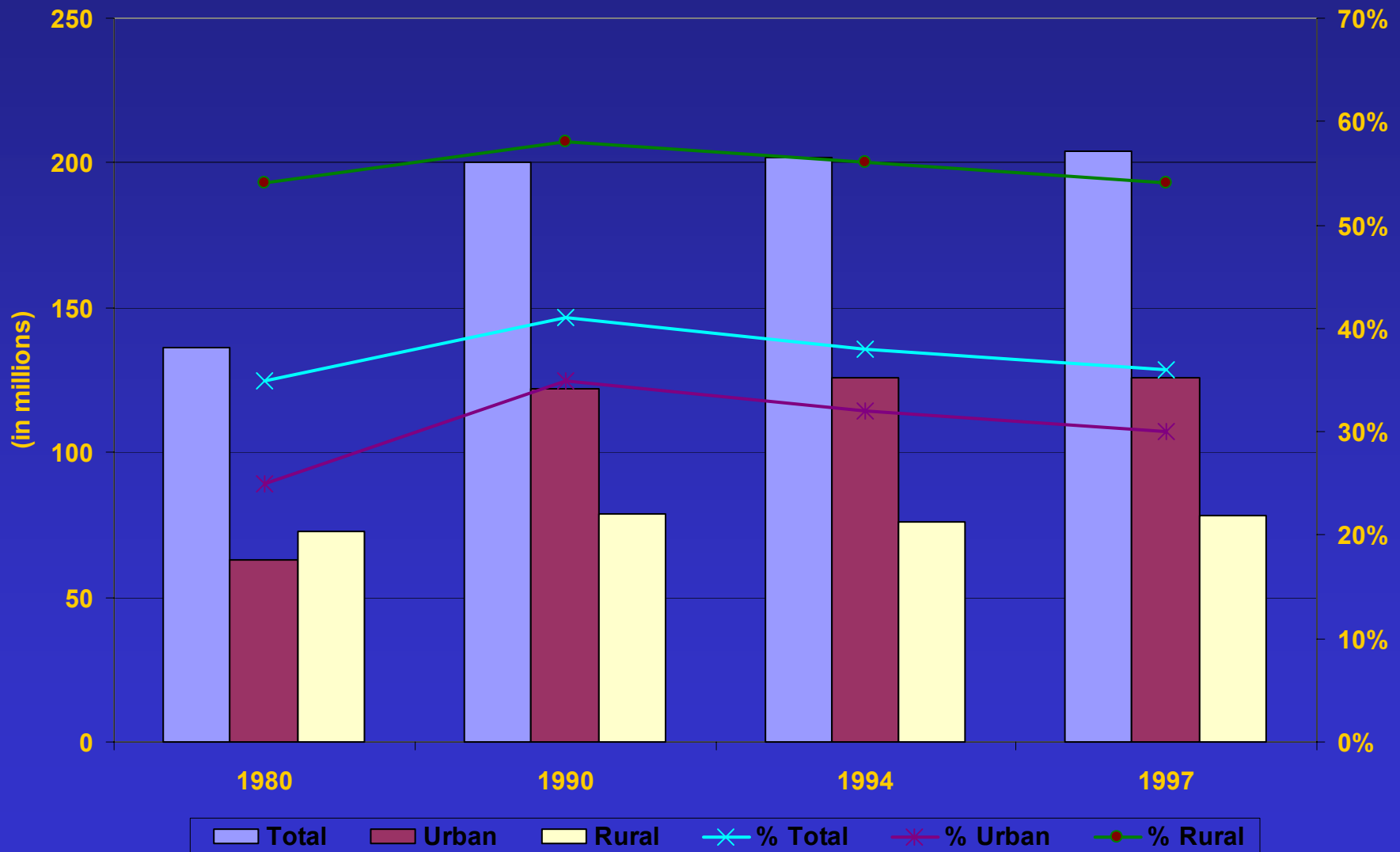
# **The context: agricultural competitiveness & rural poverty**

**The potential of the agriculture sector is based on the reduction of trade barriers and is the basis for the region's integration in the global economy**

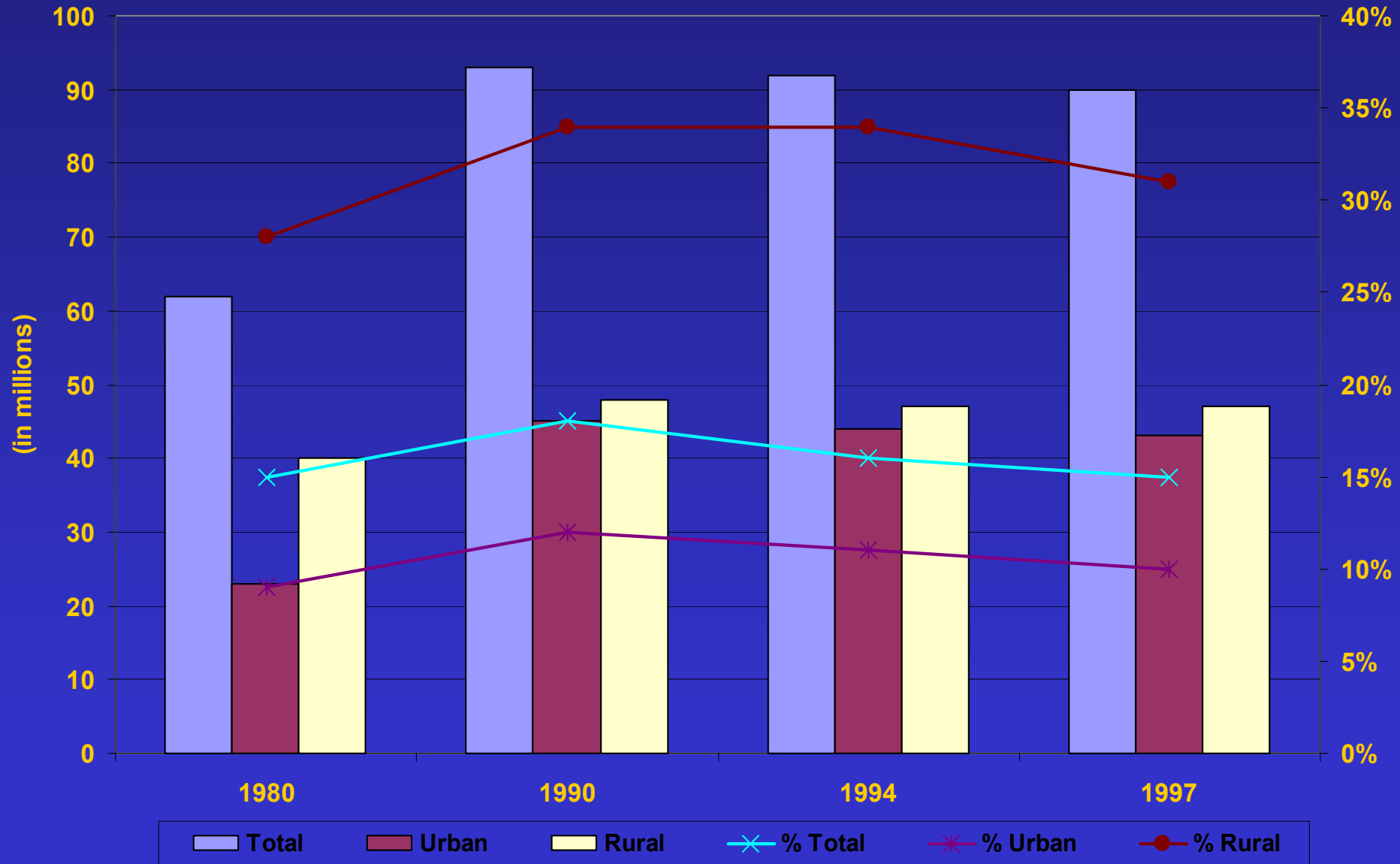
**(FTAA: great potential for RD in the Americas.  
Will it happen without modernizing agriculture?)**

**Nevertheless...The problem of rural poverty continues to be a great economic, social and political challenge**

# Poverty in Latin America: 1980-1997



# Extreme Poverty in Latin America: 1980-1997



# **Causes of Rural Poverty:**

**(de Janvry)**

- 1. Lack of control of productive assets**
- 2. Unfavorable context where assets are used**
- 3. Households characteristics**

# 5 Pathways to Reduce Rural Poverty:

- The historic option: migration
- The conventional option: direct assistance
- The real options: agriculture (agro-industry, food processing) and non-agricultural (manufacturing, tourism, construction, transportation, mining, commerce, services) economic activities
- The combination of options: pluriactivity



**The development of agriculture, livestock, forestry and fisheries is vital for the majority of countries in the region, given that there is no other sector with equal potential to:**

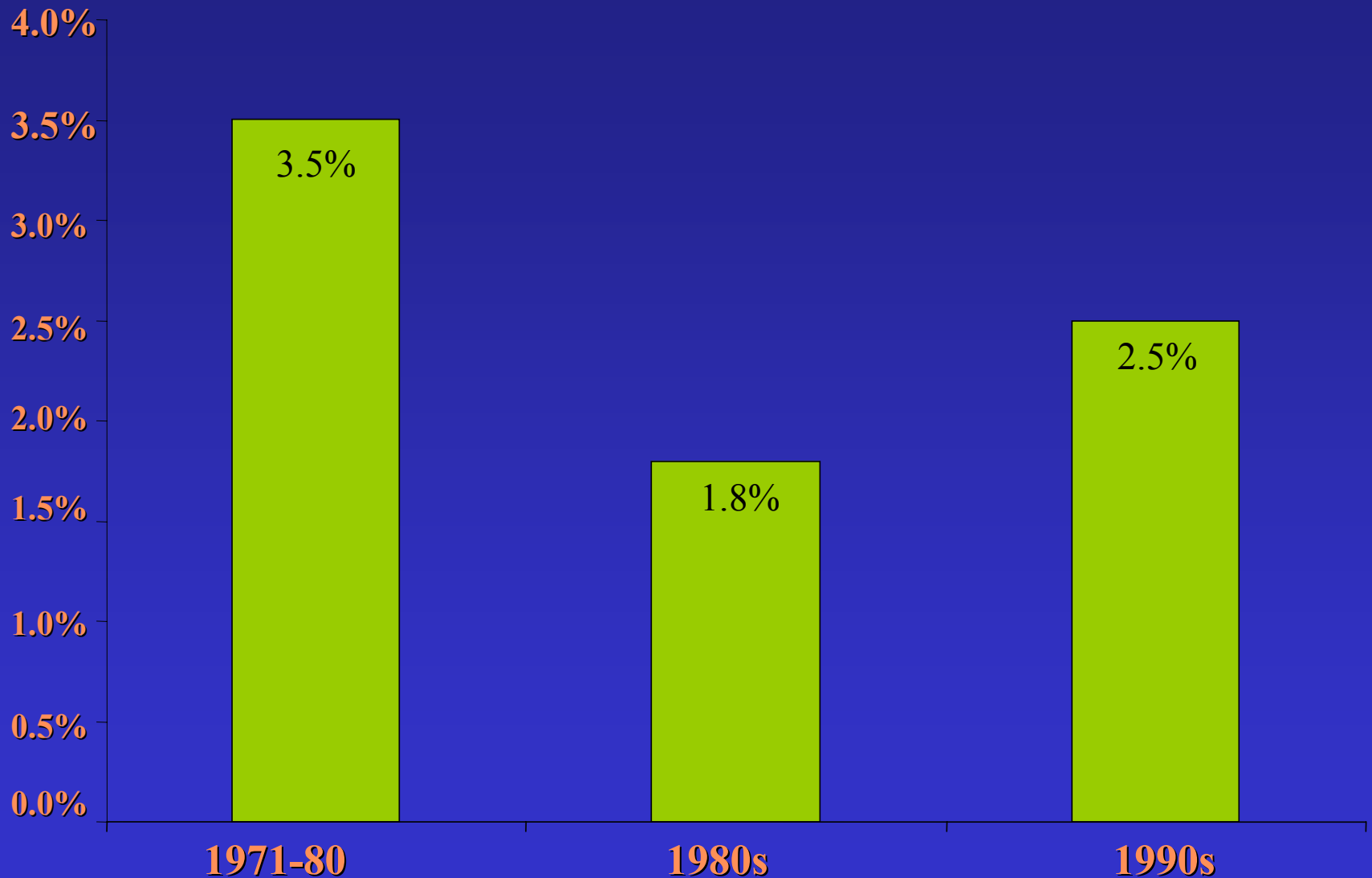
- ...generate sustainable economic growth based upon comparative and competitive advantages**
- ...promote the sustainable use of natural resources, and**
- ...a more balanced regional (non-urban) development**

# Agriculture as % of GDP



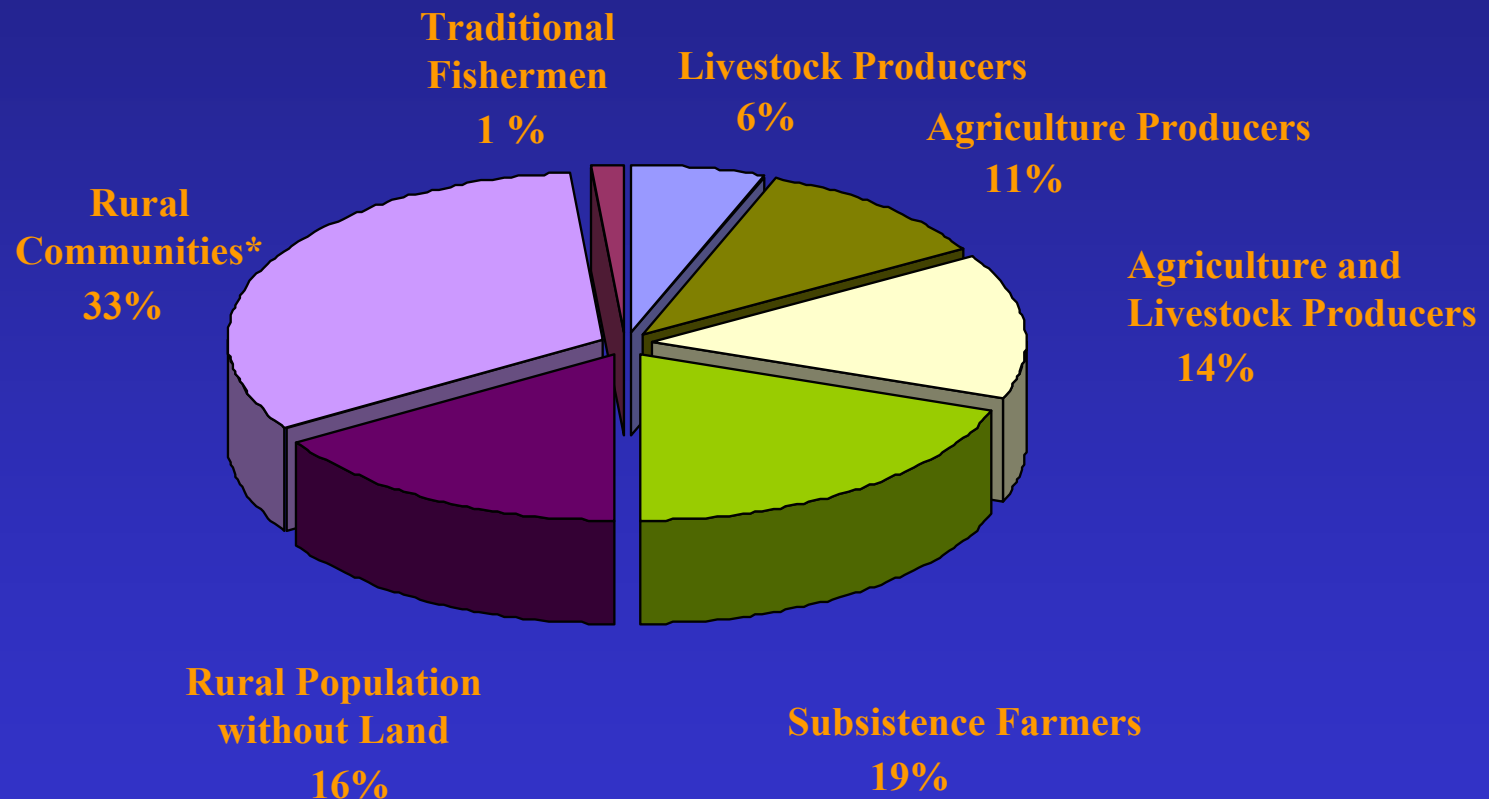
**Latin America & the Caribbean Average : 8%**

# Regional Growth of Agricultural Production



# Perhaps half of the rural poor do not have agricultural options

80 M rural poor



\* Indigenous communities and the ejidos of Mexico, rural communities in the Andean region and in the northern part of Chile and indigenous communities of the humid tropics

Source: FIDA, 2000

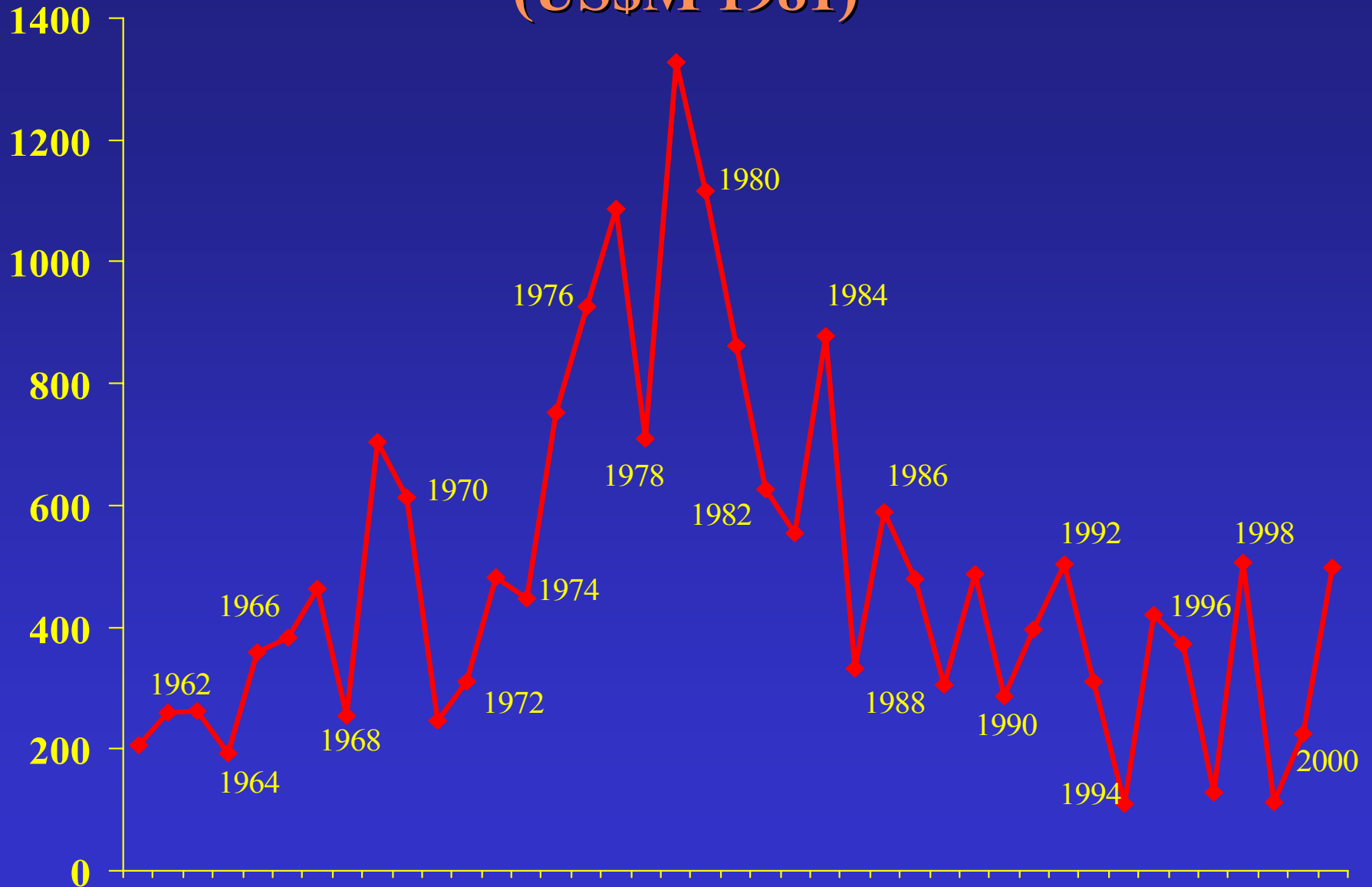
# Growing Importance of Non-Agricultural Activities

Approximately a third of employed workers and half of the rural income is not derived from agriculture (1990s)



Source: Rimisp, 2000

# IDB Investments in Rural Development: 1961-2001 (US\$M 1981)

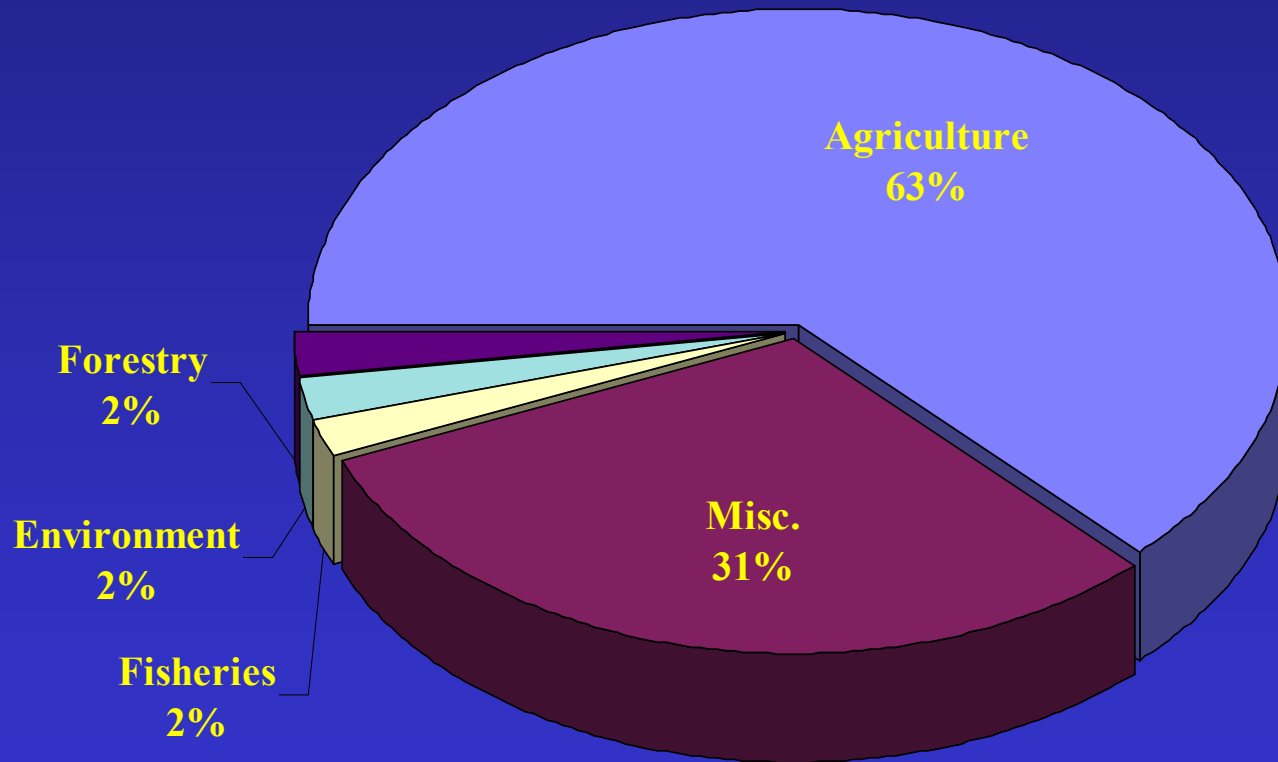


# **Why has the project pipeline declined?**

- ...the macro and sector context were not appropriate**
- ...the disappearance of traditional loan instruments**
- ...the weakness of the agricultural public sector**
- ...lack of new instruments to channel investments**

# **IDB Investments in Rural Development: 1961-2000**

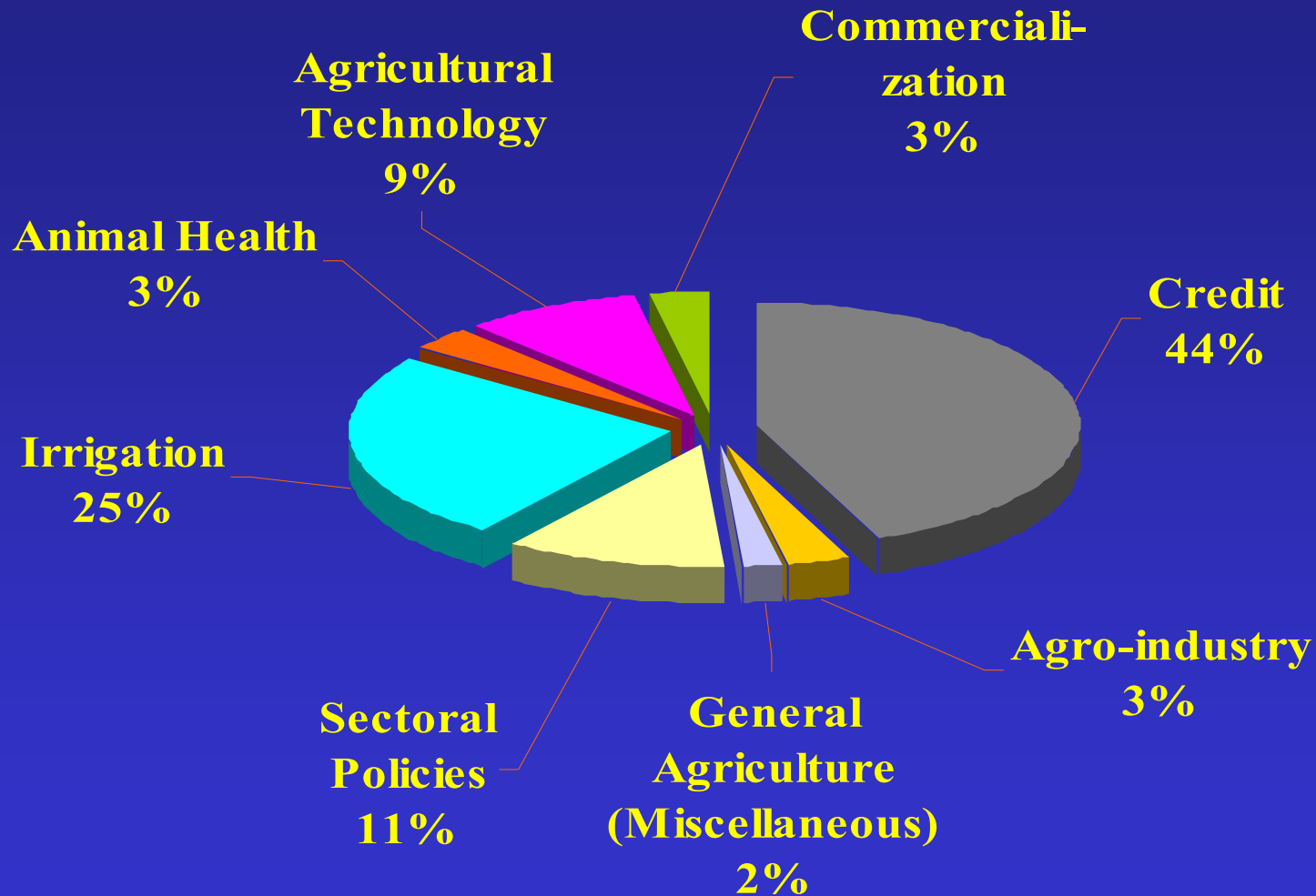
**(% by sector )**





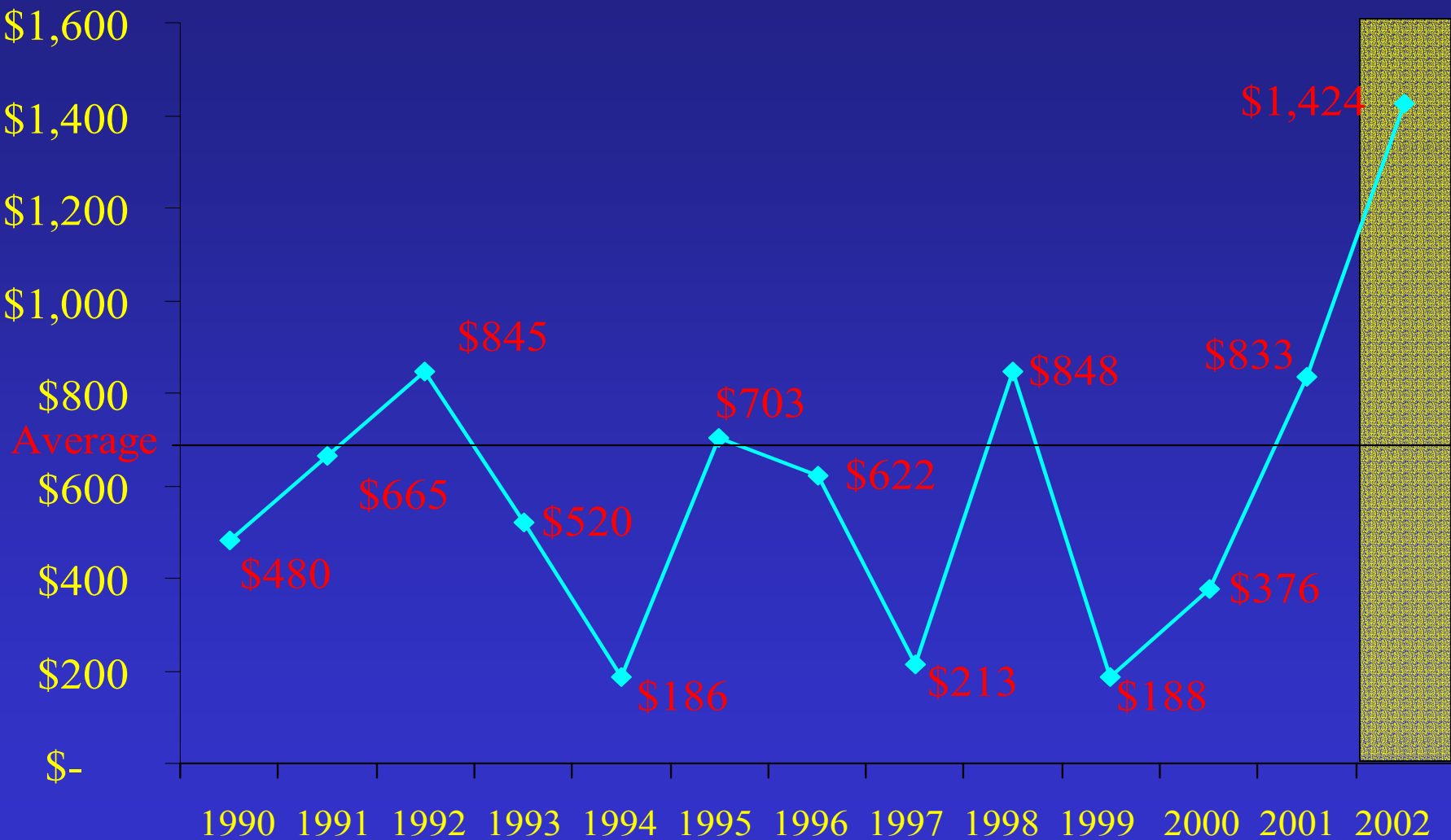
# **IDB Investments in Agriculture: 1961-2000**

**(% by activity)**



# IDB Investments in Rural Development: 1990-2002

(US\$M 1995)



Average:\$680

Std. Dev.:\$345

# Current IDB Financing in Rural Projects

Region	In Execution	In Preparation*
1	1,223	389
2	2,071	1,201
3	1,288	440
Total:	4,582	2,030

\* 2002-03

Last Updated: 1/02

# **Lessons Learned from Rural Development Projects**

- **Consider the economic and political context and its influence in RD**
- **Prepare RD strategies at a national & provincial level**
- **Identify “target groups” (heterogeneity) and look at options to reduce poverty**
- **Regional economic development**

# **Eight Priority Areas of Investment**

- 1. Consolidation of sector reform programs  
(reconversion, new market instruments,  
assistance to the agribusiness sector)**
- 2. Modernization of the public sector  
(analytical capacity; technology; plant,  
animal health & food safety)**

- 3. Promotion of economic non-agricultural rural activities (tourism, industry, micro and small and medium-sized businesses)**
- 4. Improve access to land (land titling, land registry, leasing, land sales)**
- 5. Development of rural financial services (assistance for reconversion, diversification, non-agricultural activities)**

**6. Sustainable management of natural resources (conservation of ecosystems, land degradation, legal and institutional reforms)**

**7. Improve rural infrastructure**

**8. Training, education and health services**

# Conclusions

- **We have made progress in RD thinking and on reaching consensus over key priority areas, but most of this progress has been in Washington...**
- **Let's achieve a real impact in poverty reduction and on the modernization of agriculture in the Americas!**



- **This is the best time to reach consensus about RD policies and instruments, and put them into practice!**
- **Great opportunity to make real progress in rural development by working within FTAA**
- **We welcome the renewed involvement of USAID in promoting rural prosperity in the Americas!!!**